

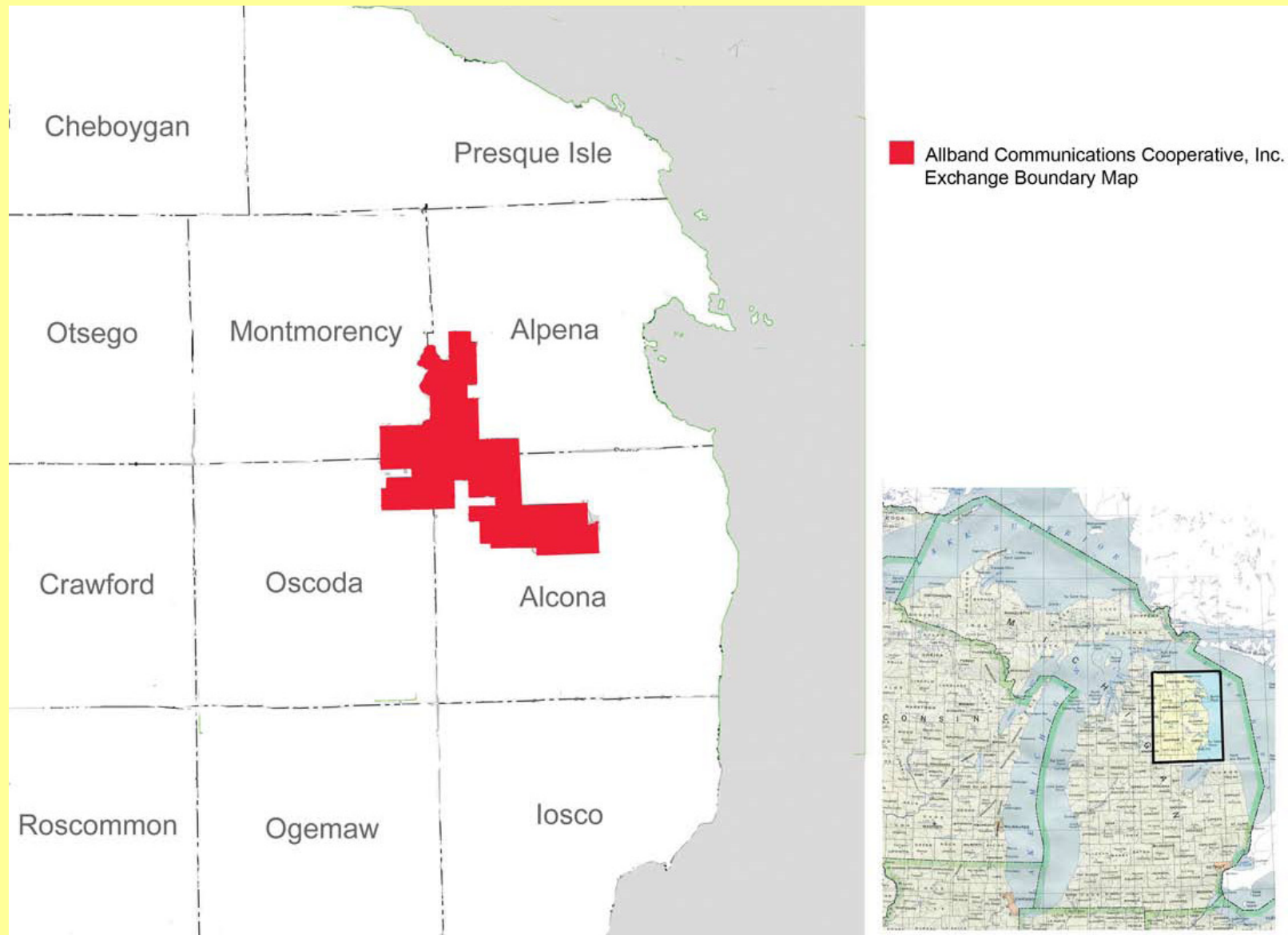
Allband Communications Cooperative, Inc.

Provision of Basic and Advanced Services to Unserved Areas in the Lower Peninsula of Michigan



March 30th, 2011

Allband Licensed Service Area



Allband Is Dedicated To Providing Ubiquitous Services In Unserved Areas In Michigan

- On November 3, 2003, after extensive planning and organizational efforts, Allband filed its Articles of Incorporation with the State of Michigan.
- On July 29, 2004, Allband filed a complete loan application with the USDA Rural Development.
- On August 31, 2004, the Michigan Public Service Commission (“MPSC”) in Case No. U-14200 granted Allband a temporary license to provide service to the area Allband planned to serve (Robbs Creek Exchange). A permanent license was granted by the MPSC in Case No. U-14200 on December 2, 2004.
- Allband obtained RUS funding on Oct. 7, 2004 and began constructing an all fiber, passive optical, state of the art telecommunications network that would allow Allband not only to provide standard telecommunications services, but also ubiquitous broadband and other advanced services.

Allband Is Dedicated To Providing Ubiquitous Services In Unserved Areas In Michigan *(Cont.)*

- On August 11, 2005, the FCC granted Allband's waiver of certain FCC's rules and allowed Allband to be treated as an ILEC for NECA pooling and Universal Service purposes.
- On November 10, 2005, the MPSC in Case No. U-14659 granted Eligible Telecommunications Carrier (ETC) status to Allband.
- Allband joined the NECA pools in December 2006. This action allowed Allband to (a) Minimize administrative expenses and (b) Maintain reasonable and stable access rates.
- USAC and NECA recognized Allband as an ILEC and began providing Interim Common Line Support and Local Switching Support in December 2006. Allband began receiving High Cost Loop Support in January 2008. This support is being used and will be used by Allband to recover a substantive portion of the ongoing high cost of providing ubiquitous network facilities and thus to enable Allband to maintain reasonable local exchange consumer rate levels (\$19.90 per month for residence and business).

Allband Is Dedicated To Providing Ubiquitous Services In Unserved Areas In Michigan *(Cont.)*

- RUS required a 5 year build out and a 20 year loan to construct a network to serve customers that were previously without service.
 - The subscription rate is increasing as the network is built out to new customers locations.
 - In addition to voice and broadband services, life saving services (911) are now provided to customers in the service area.
 - Allband was started as a service to people that live in this area, not as a means to collect USF revenues.
- For this “greenfield” buildout:
 - Plant had to be placed all the way to the subscribers premises and therefore fiber to the home was the most efficient technology.
 - The plant investment is relatively new and therefore net investment is relatively high.

Analysis of USF Reform NPRM Released 2/9/2011

COMPANY: ALLBAND COMMUNICATIONS

Line	Description	Source	2010	2011	2012	2013	2014
REGULATED REVENUES							
Revenues - USF Support:							
LN1	NECA-ICLS	3 year forecast	\$386,134	\$390,742	\$388,155	\$385,586	\$383,033
LN2	NECA-LSS	3 year forecast	\$93,769	\$89,314	\$86,124	\$83,048	\$80,082
LN3	USF SNA	From USAC Appendix 1	\$0	\$0	\$0	\$0	\$0
LN4	USF HCL	3yr forecast and USAC Appedix 1	\$605,963	\$879,600	\$934,555	\$913,457	\$893,774
LN5	SUBTOTAL -USF	=(Sum LN1 thru LN4)	\$1,085,866	\$1,359,656	\$1,408,835	\$1,382,090	\$1,356,889
LN6	1.3 Loops		134	158	173	178	183
LN7	Annual USF Support per Line	=(LN5 / LN6)	\$8,103	\$8,591	\$8,131	\$7,753	\$7,398
LN7a	Monthly USF Support per Line	=(LN7 /12)	\$675	\$716	\$678	\$646	\$617
Other Regulated Revenues:							
LN8	Other Interstate Revenues (ie. NECA settlements, Interstate Access, etc.)	Interstate Less ICLS and LSS	\$153,613	\$147,851	\$149,479	\$151,125	\$152,789
LN9	Other Revenue (ie Local, Intrastate Access, etc)	Total Reg Revenue Less Above	\$398,507	\$398,507	\$398,507	\$398,507	\$398,507
LN10	SUBTOTAL - All other Reg. Revenues:	=(Sum LN8 + LN9)	\$552,120	\$546,359	\$547,986	\$549,632	\$551,296
LN 11	TOTAL REGULATED REVENUES	=(LN7 + LN10)	\$1,637,986	\$1,906,014	\$1,956,821	\$1,931,723	\$1,908,185
Regulated Operating Expense, Interest, Other:							
LN12	Op. Expense	From Forecast	\$1,013,131	\$1,028,088	\$1,043,230	\$1,043,230	\$1,043,230
LN13	Interest	From Forecast	\$336,669	\$336,669	\$336,669	\$336,669	\$336,669
LN14	Other	All Other Income Stmt Items	\$0	\$0	\$0	\$0	\$0
LN15	TOTAL OPERATING EXPENSE, INTEREST, ETC	=(Sum LN12 + LN14)	\$1,349,800	\$1,364,757	\$1,379,899	\$1,379,899	\$1,379,899
LN16	Net Income Before Tax	=(LN11 - LN15)	\$288,185	\$541,257	\$576,922	\$551,823	\$528,286
LN 17	Net Investment	3 Year Forecast	\$6,164,589	\$5,922,817	\$5,675,366	\$5,438,252	\$5,211,046
LN 18	ROR	=(LN16 / LN17)	4.67%	9.14%	10.17%	10.15%	10.14%
LN 18a	HCL Cap Revenue Effect	From Forecast			(\$7,900)	(\$19,290)	(\$33,064)
LN 19	TIER	=((LN13+LN16)/LN13)	1.8560	2.6077	2.7136	2.6391	2.5692
NPRM Impacts					2012	2013	2014
LN 20	High Cost Loop Fund				(\$103,019)	(\$203,723)	(\$302,825)
LN 21	Safety Net Additive				\$0	\$0	\$0
LN 22	LSS				(\$41,250)	(\$83,750)	(\$125,000)
LN 23	ICLS				(\$31,020)	(\$62,980)	(\$94,000)
LN 24	\$3000/Ln Support Limitation	Additional USF reduction based on the \$3000 per line cap			(\$713,770)	(\$496,861)	(\$284,855)
LN 25	Total Support Reduction	=(Sum LN20 thru LN24)			(\$889,059)	(\$847,315)	(\$806,680)
LN 25A	Total Monthly Support Reduction Per Line	=(Line 25 / Line 6 / 12)			(\$428)	(\$396)	(\$367)
LN 25B	% Support Reduction Per Line	=(Line 25 / Line 5)			-63%	-61%	-59%
LN 26	Estimated USF Support to be received if current NPRM is implemented:				\$519,776	\$534,776	\$550,209
LN 27	Modified Net Income	=(LN16 + LN25)			(\$312,137)	(\$295,491)	(\$278,394)
LN 28	Modified ROR	=(LN28 / LN 17)			-5.50%	-5.43%	-5.34%
LN 29	Modified TIER	=((LN13+LN27)/LN13)			0.0729	0.1223	0.1731

Bottom Line, if the FCC's NPRM Proposals are Adopted:

- Allband will lose over \$800K in USF revenues used to pay back loans for, and operate the network it deployed to serve customers in its service area.
 - This is more than 40% of Allband's revenues.
- To recoup this loss from its customers, Allband would have to raise its rates by approximately \$400 per-month
- With this loss in revenues, Allband will be unable to pay the interest or repay the principal on its RUS loans.

Allband has followed all of the FCC's rules and requirements to provide voice and broadband service to customers who have never had service. The FCC's proposals change the revenue recovery rules of a network that has already been deployed (effectively a retroactive disallowance of cost recovery).

If these changes are adopted, Allband will be unable to pay for operating costs and for its debt, to RUS; and it will have to cease operations

Allband Supports USF Reform That Maintains Sufficient and Predictable Funding

- The proposed changes listed in Appendix A of the NPRM have major negative consequences for customers in ILEC rural areas and are at odds with the USF principles of the Act. These proposals should not be adopted.
- The Commission should consider proposals like those being developed by the rural ILEC Associations that (a) Work within the objectives set forth by the FCC in the NPRM, and (b) Provide sufficient and predictable USF revenues to:
 - Recover the cost of, and maintain network facilities already deployed.
 - Support future investments, with reasonable cost constraints.
 - Provide quality voice and broadband services with rates and services that are comparable to those offered in rural areas.